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Shenzhen Grade-A Office Market Report

Q3 2020

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GRADE-A OFFICE MARKET IN SHENZHEN RECOVERED FURTHER, AND THE VACANCY RATE DECLINED SLIGHTLY

In Q3, T2 Building in China Resources Qianhai Centre and Kerry Qianhai Business Centre were delivered, bringing 216,000 sqm new supply to the Shenzhen Grade-A office market and pushing the stock to 7.632 million sqm

The economy in Shenzhen is recovering steadily and picking up obviously. From January to August 2020, the cumulative growth in fixed asset investment increased by 10.2% YoY, and the increase was 0.3 percentage points higher than the period from January to July. Total retail sales of consumer goods in Shenzhen decreased by 10.3% YoY. The decline was 2 percentage points less than the period from January to July.













The positive development of the economy has also led to the further recovery of the Shenzhen Grade-A office market. In

Q3 2020, the vacancy rate of Shenzhen Grade-A office market declined by 0.3 percentage points QoQ to 18.4%, and the decline narrowed by 0.5 percentage points QoQ. As vacancy rate remained high, the average rent in the Shenzhen Grade-A office market fell 0.5% QoQ to RMB 208 per sqm per month. The downward trend in rental level has also prompted enterprises, particularly those from the professional services and TMT sectors, to seek opportunities to relocate or expand.

Due to fierce competition in the office leasing market, some landlords offered

more favorable rent-free period and lease terms to attract renowned tenants. Due to the flexible leasing conditions, the co-working spaces have attracted some famous enterprises to rent a large number of seats. In order to stabilize the occupancy rate and cash flow of office buildings at the back of an over-supply market, some Grade-A office buildings have also launched short-term rental for office space with delicate decoration, to meet the flexible needs of tenants.

Fig 1. Shenzhen Grade-A office market indicators

				
	NEW SUPPLY	RENT	VACANY RATE	PRICE
Q3 2020	216,100 sqm	RMB 208 / sqm / month	18.4%	RMB 49,504 / sqm
QOQ CHANGE		 0.5%	 0.3pps	 2.7%
FORCAST (Q4 2020)				

Source: Knight Frank Research

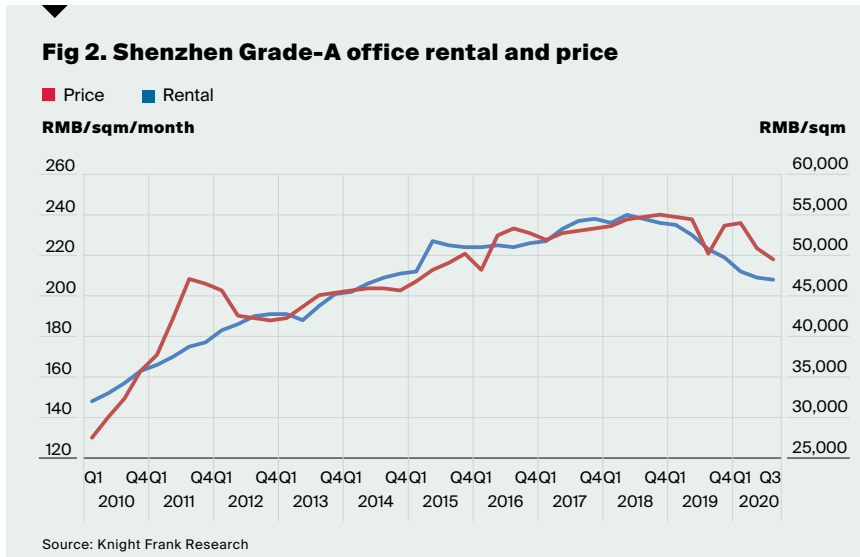
RENTS AND PRICES

In Q3, the average rent for Grade-A office space in Shenzhen was RMB208 per sqm per month, down 0.5% QoQ.

In terms of business district, the average rent in secondary business district and emerging business district remained stable during the quarter, while the rent in core business district showed a downward trend, but the decline was narrowed. The average rent of Grade-A office buildings in the core business district decreased by 0.8% QoQ to RMB 220 per sqm per month. The decline was narrowed by 0.6 percentage points QoQ.

For the strata-title market, the average selling price of office buildings in Shenzhen during the quarter was RMB 49,504 per sqm, decreased 2.7% QoQ. The decline was 3.1 percentage points less than the previous quarter.

Fig 2. Shenzhen Grade-A office rental and price



Source: Knight Frank Research

Table 1. Major Grade-A office sub-market indicators Q3 2020

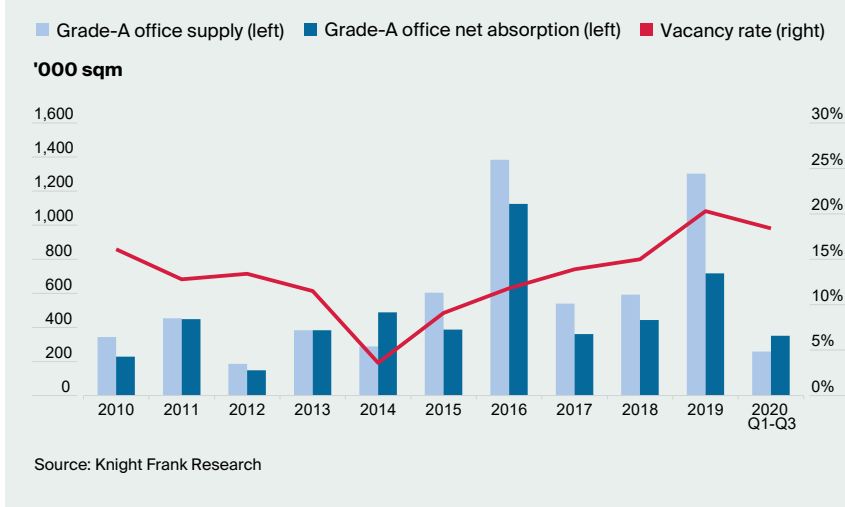
Submarket	Rent (RMB / sqm / month)	Rent Change QoQ	Vacancy Rate	Vacancy rate change (QoQ)
Caiwuwei	196	↓2.0%	14.6%	↓0.4
Futian CBD	241	↓1.2%	13.6%	↑0.3
Houhai	222	↓0.4%	13.0%	↑0.3
Qianhai	155	↑1.3%	29.3%	↑0.4
Huaqiang North	175	↔	30.7%	↔
Chegongmiao	219	↔	18.0%	↓3.5
Shekou	200	↔	35.7%	↓7.6
Nanyou	165	↔	4.4%	↔
High-tech Business Park	179	↔	22.3%	↓1.5

Source: Knight Frank Research

SUPPLY AND DEMAND

In Q3 2020, China Resources Qianhai Centre and Kerry Qianhai Business Centre were completed in Shenzhen, bringing 216,000 sqm new supply to the market. The stock of Grade-A office market in Shenzhen increased to 7.632 million sqm with the net absorption of 198,000 sqm.

With the further recovery of social and economic activities, the office rental market became more active, and leasing inquiries have also increased. Professional services and TMT enterprises were still the important engines of the demand side of the Shenzhen Grade-A office market in this quarter. Technology companies performed outstandingly. Some examples included Hakka Bank's lease of a 1,400 sqm-office space in Strong Food Mansion, Jiazhou Technology's lease of a 900 sqm-office space in T5 Building of China Resources Qianhai Centre.

Fig 3. Shenzhen Grade-A office supply, take up and vacancy rate

Source: Knight Frank Research

Table 2. Major Grade-A office leasing transactions, Q3 2020

District	Building	Tenant	Area (sqm)
Houhai	Strong Food Mansion	Hakka Bank	1,400
Qianhai	Building 5, China Resources Qianhai Centre	Jiazhou Technology	900

Source: Knight Frank Research
Note: all transactions are subject to confirmation

Table 3. Major Grade-A office future new supply Q4 2020

District	Building	Area (sqm)
Futian CBD	Shenzhen Guosen Securities Mansion	68,000
Qianhai	Hongyi Mansion	32,000

Source: Knight Frank Research
Note: all transactions are subject to confirmation

INVESTMENT MARKET

In Q3 2020, no en-bloc transactions were recorded in the investment market of Grade-A office building in Shenzhen.

Despite the absence of en-bloc transactions in Q3, investors' sentiment toward the office investment market has improved amid a further recovery of the economy in China. Given the favourable policy and other positive factors, Shenzhen office investment market has caught the investors'

attention. Shenzhen Grade-A office market will have a huge new supply in the future. When facing a variety of choices, investors can focus on high-quality office buildings located in the core business district with a high degree of industrial agglomeration, so as to integrate tenant's resources, stabilize and optimize the cash flow of projects.

It is expected that due to the impact of new supply in the future, Shenzhen's

Grade-A office market will maintain the imbalanced supply and demand in a certain period of time, which will pose challenges to the stability of cash flow of many office buildings. However, with the continuous improvement of the Shenzhen's strategic position in China, in the long run, it is expected that high-quality Grade-A office projects in Shenzhen will still be able to maintain and increase their asset values.

MARKET OUTLOOK

Recently, the "Implementation Plan for the Pilot Comprehensive Reform of Building a Pilot Demonstration Zone of Socialism with Chinese Characteristics in Shenzhen" was officially released. The General Office of the CPC Central Committee and the General Office of the State Council also issued the "Implementation Plan for The Comprehensive Reform of Shenzhen Pilot Demonstration Zone for Building Socialism with Chinese Characteristics (2020-2025)". The plan proposes to strengthen the role of the China (Guangdong) Pilot Free Trade Zone in Qianhai and Shekou Area of Shenzhen in comprehensively deepening reformation and expanding open-door to the outside world. It also proposes to support qualified domestic enterprises in Shenzhen to list overseas for financing; support qualified foreign financial institutions to establish securities companies and fund management companies in

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Shenzhen in accordance with the law; and support qualified foreign institutions to obtain payment business licenses in Shenzhen in accordance with the law. The establishment of a system of financial rules

in line with international norms will also be promoted.

Under the guidance of the national policies, the office rental demand of TMT enterprises, professional service enterprises and their upstream and downstream enterprises are expected to be further stimulated. In the face of the release in demand in relevant industries and the market environment where the pressure of leasing office space still exists, it is suggested that landlords can take advantage of the opportunities brought by favorable policies through improving building quality and issuing preferential leasing terms. Meanwhile, tenants can take advantage of the "tenant market" for expansion or relocation with more flexible leasing terms.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

Research & Consultancy



Timothy Chen
Senior Director,
Head of Research & Consultancy, China
+86 21 6032 1769
timothy.chen@cn.knightfrank.com



Regina Yang
Director, Head of Research & Consultancy,
Shanghai & Beijing
+86 21 6032 1728
regina.yang@cn.knightfrank.com



Martin Wong
Associate Director,
Research & Consultancy, Greater China
+852 2846 7184
martin.wong@hk.knightfrank.com



Omega Ou
Analyst, Research & Consultancy,
Guangzhou
+86 20 3877 1477
omega.ou@cn.knightfrank.com

Shenzhen Office Services



Ken Kan
Managing Director,
Head of South China Office Services, Shenzhen
+86 755 3394 7001
ken.kan@cn.knightfrank.com



Carol Wu
Director, Head of Office Services,
Shenzhen
+86 755 3394 7002
carol.wu@cn.knightfrank.com

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